

**HURON REGIONAL WATER AUTHORITY
PORT AUSTIN, MICHIGAN**

**FINANCIAL REPORT
SEPTEMBER 30, 2008**

HURON REGIONAL WATER AUTHORITY

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INDEPENDENT AUDITORS' REPORT

To the Board Members
Huron Regional Water Authority
Port Austin, Michigan

We have audited the accompanying basic financial statements of the Huron Regional Water Authority as of and for the years ended September 30, 2008 and 2007 as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, Issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Huron Regional Water Authority as of September 30, 2008 and 2007 and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2009 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis (identified in the table of contents) is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



BRINING & NARTKER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

January 16, 2009

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board Members
Huron Regional Water Authority
Port Austin, Michigan

We have audited the basic financial statements of the Huron Regional Water Authority as of and for the year ended September 30, 2008 and have issued our report thereon dated January 16, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Huron Regional Water Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Huron Regional Water Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Huron Regional Water Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Huron Regional Water Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Huron Regional Water Authority's financial statements that is more than inconsequential will not be prevented or detected by the Huron Regional Water Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Huron Regional Water Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Huron Regional Water Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



BRINING & NARTKER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

January 16, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

HURON REGIONAL WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS FYE 10/01/07 thru 9/30/08

The Huron Regional Water Authority (HRWA) is presenting the following discussion and analysis in order to provide an overall review of the utility's financial activities for the fiscal year ending September 30, 2008. We encourage readers to consider the information presented here in conjunction with the financial statements and notes to the basic financial statements in order to enhance their understanding of the utility's financial performance.

2008 FINANCIAL HIGHLIGHTS

- The utility's operating revenues were 4.02% over the budgeted amount of \$954,000.
- The utility's operating expenses were 30.4% over the budgeted amount of \$946,200.
- The utility's total assets decreased \$232,650 or 3.48% from 2007 to 2008.

GENERAL INFORMATION ABOUT HRWA

In the mid 1990's, the City of Bad Axe and the Village of Port Austin were both facing unique challenges to provide their citizens with high quality clean drinking water. Bad Axe was facing a deadline for arsenic levels that the EPA imposed and, with their current system, would not be in compliance in the year 2006. Port Austin was facing a problem with their treatment plant that was going to need attention. The two communities decided that in the best interest of all involved, a regional water system would be appropriate to address these issues.

Over the next few years, the City of Bad Axe was awarded EPA grants calling for a matching fund to improve their water system and develop a seventeen-mile pipe-line to connect to the water supply in Port Austin. The EPA awarded approximately \$4,574,000 to develop this system. The Huron Regional Water Authority was formed in 2002 and work began on developing this project. With the help of USDA Rural Development and the EPA, the funding was put together to move this project forward. The project consisted of two segments. The first segment (Shared Facilities) consists of the water treatment plant and the peripheral support systems including the transmission line to the first booster station. The second segment (Separate Facilities) consists of the three booster stations, transmission main for the first station to the City of Bad Axe, a water tower located west of the City of Bad Axe and the support systems that go along with these units. The total cost of the joint projects had an estimated value of \$17,995,000.

A management agreement between the two entities established the authority. The board of directors consists of two members representing each entity and two alternates, one from each entity. The board has four officers; President, Vice-President, Secretary, and Treasurer. The members will serve a two-year term each with the terms staggered to allow each entity to have one position needing reappointment each year.

HURON REGIONAL WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FYE 10/01/07 thru 9/30/08

RATES

The utility established rates based on the projected budget. The budget utilizes the prior year metered flows to both the City of Bad Axe and the Village of Port Austin. The adopted rates for the fiscal year ending September 30, 2008 were as follows: operations \$1.65 per 1,000 gallons of metered flow, shared facilities debt \$3.27 per 1,000 gallons of metered flow, and separate facilities debt \$1.47 per 1,000 gallons of metered flow.

UTILITY FINANCIAL ANALYSIS

The Statements of Net Assets include all of the utility's assets and liabilities and provide information about the nature and amount of investments in resources and the obligations to creditors. This statement provides the basis for evaluating the capital structure and assessing the liquidity and financial flexibility of the utility.

We present a summary of the utility's Statement of Net Assets Table 1.

Table 1

Condensed Statements of Net Assets

	2006	2007	2008
Current and Other Assets	\$ 200,291	\$ 256,808	\$ 114,625
Restricted Assets	143,714	513,874	629,682
Capital Assets	17,286,205	17,300,175	16,984,691
Total Assets	<u>17,630,210</u>	<u>18,070,857</u>	<u>17,728,998</u>
Current Debt	88,424	265,835	266,626
Long Term Debt	10,654,000	11,135,000	11,025,000
Total Liabilities	<u>10,742,424</u>	<u>11,400,835</u>	<u>11,291,626</u>
Invested in Capital Assets			
Net of Related Debt	6,776,304	6,165,175	5,959,691
Restricted	143,714	513,874	629,682
Unrestricted	(32,232)	(9,027)	(152,001)
Total Net Assets	<u>\$ 6,887,786</u>	<u>\$ 6,670,022</u>	<u>\$ 6,437,372</u>

The total value of the capital assets decreased during the 2008 year as the modification of the intake was completed during the year and all construction contracts were closed out but the cost of depreciation allocated also increased. The Board of Directors also approved moving some of the money for payment on the bond issue to Certificates of Deposit with Citizens First to improve the rate of return on the short term investment. These CD's had a return that was more than double the rate they were earning at the Port Austin State Bank.

HURON REGIONAL WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FYE 10/01/07 thru 9/30/08

Total liabilities decreased as a direct result of payments made on the bond issue to USDA Rural Development.

2008 OPERATING RESULTS

Table 2

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	2006	2007	2008
Operating Revenues	\$ 724,637	\$ 997,529	\$ 992,311
Non-Operating Revenues	249,473	4,229	8,887
Total Revenues	974,110	1,001,758	1,001,198
Operating Expenses	391,080	743,356	750,900
Depreciation Expense	351,460	476,166	482,948
Non-Operating Expense	-	-	-
Total Expense	742,540	1,219,522	1,233,848
Change in Net Assets	231,570	(217,764)	(232,650)
Beginning Net Assets	6,656,216	6,887,786	6,670,022
Ending Net Assets	\$ 6,887,786	\$ 6,670,022	\$ 6,437,372

The utility began operations January 3, 2006 and generated operational revenues of \$724,637 and also received an additional grant from the EPA in the amount of \$248,249 to assist in the construction efforts during the year ended September 30, 2006. In the fiscal year ending September 30, 2008 the utility generated \$992,311 in revenues from operations and an additional \$8,887 in interest revenue on investments.

HURON REGIONAL WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS FYE 10/01/07 thru 9/30/08

Table 3

OPERATING REVENUES AND EXPENSES

	<u>2006</u>	<u>2007</u>	<u>2008</u>
OPERATING REVENUES:			
User Fees	\$ 724,637	\$ 986,571	\$ 976,516
Other	-	10,958	15,795
Total Operating Revenue	<u>724,637</u>	<u>997,529</u>	<u>992,311</u>
OPERATING EXPENSES:			
Contractual services:			
Management Services	145,112	231,775	232,956
Legal and Professional	1,286	7,679	5,498
Insurance	12,204	10,796	11,297
Other	263	193	2,549
Bond Interest Expense	232,215	492,913	498,600
Depreciation	351,460	476,166	482,948
Total Operating Expenses	<u>742,540</u>	<u>1,219,522</u>	<u>1,233,848</u>
NET OPERATING INCOME (LOSS)	<u>\$ (17,903)</u>	<u>\$ (221,993)</u>	<u>\$ (241,537)</u>

Revenues

The utility generated \$992,311 of operating revenue during fiscal year 2008 of which \$976,516 was from the sale of water. The Certified Laboratory at the facility generated an additional \$15,795 in revenue from drinking water analysis. The utility budget for the fiscal year ended September 30, 2008 projected water sales of approximately 157 million gallons. The utility actually sold just over 163 million gallons of water. The water rates for the 2008 fiscal year were set as follows: operating commodity charge, \$1.65 per 1,000 gallons; shared facilities debt charge of \$3.27 per 1,000 gallons; and the separate facilities debt charge of \$1.47 per 1,000 gallons.

Expenses

Operating expenses totaled \$1,233,848 for the twelve months of operation in 2008. Depreciation accounted for \$482,948 or 39% of the total operating expenses, while interest expense on the bond issues accounted for \$498,600 or 40% of the total expenses. The non-overhead cost of operating the facility accounted for only 21% or \$252,300 of the total expense cost.

HURON REGIONAL WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FYE 10/01/07 thru 9/30/08

DEBT

The utility has utilized United States Department of Agriculture Rural Development funds for the construction of this project. Approved funds for this project totaled \$11,335,000. Repayment of these funds will be over forty (40) years.

GROWTH

To provide growth for the utility, the City of Bad Axe is looking to expand its service area to potential customers such as Huron Medical Care Facility and Huron Medical Center. The City of Bad Axe has entered into a contract with North Huron High School and now provides the facility with drinking water.

The Village of Port Austin has expanded its service area to Pointe Aux Barques Township. Hume Township and Port Austin Township have expressed interest in receiving drinking water from the Village but there are no immediate plans to enter into any agreements.

PROJECTED CAPITAL EXPENDITURES

No capital improvements are planned at this time. The facility is new and any need for expansion will be determined by the growth of the two entities that are served by the utility.

The Board of Directors approved establishing a repair and replacement fund beginning with the fiscal year ending September 30, 2009. A total of \$18,000 per year will be set aside for repairing and or replacing equipment as future needs arise.

ECONOMIC FACTORS

Port Austin's service area is a resort town that has a year round population that has a high percentage of retirees on a fixed income. Port Austin also has a summer population that is double that of the year round population. The seasonality of this entity results in major fluctuations in the demand for water.

Bad Axe's service area has a steady population and the demand for water remains relatively constant year round.

UTILITY CONTACT INFORMATION

This financial report is designed to provide our customers and creditors with a general overview of the utilities finances and to demonstrate the utilities accountability for the funds it receives. Anyone having questions regarding this report or desiring additional information may contact the Huron Regional Water Authority, 76 W. Spring St., P.O. Box 549, Port Austin, Michigan 48467 or by phone at (989) 738-8140 or email at hrwa@airadvantage.net.

BASIC FINANCIAL STATEMENTS

**HURON REGIONAL WATER AUTHORITY
BUSINESS-TYPE ACTIVITIES
STATEMENTS OF NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash - checking accounts (Note 2)	\$ 28,933	\$ 163,403
Cash - interest bearing savings - restricted (Note 2)	629,682	513,874
Accounts receivable	80,517	85,933
Prepaid expenses	5,175	7,472
TOTAL CURRENT ASSETS	<u>744,307</u>	<u>770,682</u>
NONCURRENT ASSETS - CAPITAL ASSETS (NOTE 3)	16,984,691	17,300,175
TOTAL ASSETS	<u>17,728,998</u>	<u>18,070,857</u>
<u>LIABILITIES</u>		
CURRENT LIABILITIES:		
Current portion of revenue bonds payable (Note 4)	123,000	110,000
Accrued interest payable	248,063	246,020
Accounts payable	18,563	19,815
TOTAL CURRENT LIABILITIES	<u>389,626</u>	<u>375,835</u>
NONCURRENT PORTION OF REVENUE BONDS PAYABLE (NOTE 4)	10,902,000	11,025,000
TOTAL LIABILITIES	<u>11,291,626</u>	<u>11,400,835</u>
NET ASSETS:		
Invested in capital assets - net of related debt	5,959,691	6,165,175
Restricted for bond repayment	629,682	513,874
Unrestricted (deficit)	(152,001)	(9,027)
TOTAL NET ASSETS	<u>\$ 6,437,372</u>	<u>\$ 6,670,022</u>

The accompanying notes are an integral part of the financial statements.

**HURON REGIONAL WATER AUTHORITY
BUSINESS-TYPE ACTIVITIES
STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
OPERATING REVENUE	\$ 992,311	\$ 997,529
TOTAL OPERATING REVENUE	<u>992,311</u>	<u>997,529</u>
OPERATING EXPENSES:		
Administrative expenses:		
Bond interest	498,800	492,913
Insurance	11,297	10,796
Legal and professional	5,498	7,679
Miscellaneous	2,549	193
Contract management fees	232,956	231,775
Depreciation	482,948	476,166
TOTAL OPERATING EXPENSES	<u>1,233,848</u>	<u>1,219,522</u>
OPERATING INCOME (LOSS)	<u>(241,537)</u>	<u>(221,993)</u>
NONOPERATING REVENUE:		
Interest income	8,887	4,229
TOTAL NONOPERATING REVENUE	<u>8,887</u>	<u>4,229</u>
CHANGE IN NET ASSETS	<u>(232,650)</u>	<u>(217,764)</u>
NET ASSETS - BEGINNING OF YEAR	6,670,022	6,887,786
NET ASSETS - END OF YEAR	<u>\$ 6,437,372</u>	<u>\$ 6,670,022</u>

The accompanying notes are an integral part of the financial statements.

**HURON REGIONAL WATER AUTHORITY
BUSINESS-TYPE ACTIVITIES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash receipts from customers and users	\$ 997,727	\$ 989,884
Cash payments to suppliers for goods and services	(747,812)	(565,642)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>249,915</u>	<u>424,242</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Payments for the construction of capital assets	(167,464)	(490,136)
Collection of bond proceeds - USDA Rural Development	-	586,000
Payments of bonds - USDA Rural Development	(110,000)	(105,000)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(277,464)</u>	<u>(9,136)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of interest bearing savings	(115,808)	(370,160)
Interest received on investments	8,887	4,229
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(106,921)</u>	<u>(365,931)</u>
NET INCREASE (DECREASE) IN CASH	<u>(134,470)</u>	<u>49,175</u>
CASH - BEGINNING OF YEAR	163,403	114,228
CASH - END OF YEAR	<u>\$ 28,933</u>	<u>\$ 163,403</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	(241,537)	(221,993)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	482,948	476,166
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	5,416	(7,645)
Decrease in prepaid expenses	2,297	303
Increase in accrued interest payable	2,043	246,020
(Decrease) in accounts payable	(1,252)	(68,609)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 249,915</u>	<u>\$ 424,242</u>

The accompanying notes are an integral part of the financial statements.

**HURON REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES:

The Huron Regional Water Authority was jointly incorporated in 2004 by the Village of Port Austin and the City of Bad Axe (the municipalities) for the purpose of obtaining financing to construct Lake Huron water processing and purification facilities and selling purified water to the Municipalities.

The board consists of two members from the City of Bad Axe and two members from the Village of Port Austin.

The Municipalities share of the operating costs is to be based on their respective gallon water consumption. Any contributions from the Municipalities for principal payments on bonds and acquisition of capital assets are to be credited to nonoperating revenue.

As of September 30, 2005 the water system was in the process of being constructed, but was not operational. It became operational on January 1, 2006.

Reporting Entity – In accordance with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 14, the definition of the reporting entity is based primarily on the premise of financial accountability. The Authority is a primary government and is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it. These types of organizations are deemed to be component units.

Based on the provisions of GASB 14, there are no organizations that are deemed to be component units of the Authority.

Basis of Presentation – The financial activities of the Authority are recorded within one fund, categorized and described as follows:

PROPRIETARY FUND

Enterprise Fund – The enterprise fund reports operations that provide services which are financed primarily by user charges.

Basis of Accounting – The Authority utilizes the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Cash and Cash Equivalents – The Authority considers all highly liquid investments with an original maturity of three months or less to be cash equivalents, exclusive of restricted savings.

Property, Plant and Equipment – Property, plant and equipment are recorded at cost. Depreciation is computed using the straight-line method based upon the estimated useful lives, which range from 5 to 40 years.

Accounting Estimates – The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**HURON REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007
(CONTINUED)**

NOTE 2 – CASH:

Deposits – The Authority's cash accounts consist of three interest bearing checking accounts. As of September 30, 2008, the carrying amount of the Authority's checking accounts was \$28,933 and the bank balance was \$17,536. The Authority also has restricted short-term savings account balances totaling \$455,845 at the same bank as the checking accounts, as of September 30, 2008. Of the bank balance, \$250,000 was covered by Federal Depository Insurance and \$234,778 was uninsured. The Authority believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Authority evaluates each financial institution with which it deposits Authority funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

A separate bank has restricted short-term savings account balances totaling \$173,837 which were all covered by Federal Depository Insurance.

NOTE 3 – CAPITAL ASSETS:

Capital asset activity for the year ended September 30, 2008 was as follows:

	Balance October 1, <u>2007</u>	<u>Additions</u>	<u>Deletions</u>	Balance September 30, <u>2008</u>
Capital assets not being depreciated:				
Land	\$ 246,719	\$ -	\$ -	\$ 246,719
Capital assets being depreciated:				
Bad Axe water tower	757,078	-	-	757,078
Bad Axe looping	743,927	-	-	743,927
Transmission main - separate	5,789,161	1,350	-	5,790,511
Booster stations	1,717,424	-	-	1,717,424
Water treatment plant	6,983,580	123,659	-	7,107,239
Water intake	951,387	42,455	-	993,842
Transmission main - shared	938,525	-	-	938,525
	<u>17,881,082</u>	<u>167,464</u>	<u>-</u>	<u>18,048,546</u>
Less accumulated depreciation:				
Bad Axe water tower	44,163	25,236	-	69,399
Bad Axe looping	32,546	18,598	-	51,144
Transmission main - separate	252,582	146,217	-	398,799
Booster stations	75,931	43,756	-	119,687
Water treatment plant	328,535	193,704	-	520,239
Water intake	55,498	31,831	-	87,329
Transmission main - shared	40,371	23,606	-	63,977
	<u>827,626</u>	<u>482,948</u>	<u>-</u>	<u>1,310,574</u>
Net capital assets being depreciated	<u>17,053,456</u>	<u>(315,484)</u>	<u>-</u>	<u>16,737,972</u>
Total capital assets - net	<u>\$ 17,300,175</u>	<u>\$ (315,484)</u>	<u>\$ -</u>	<u>\$ 16,984,691</u>

(Continued)

**HURON REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007
(CONTINUED)**

NOTE 3 – CAPITAL ASSETS: (Continued)

Capital asset activity for the year ended September 30, 2007 was as follows:

	Balance October 1, 2006	Additions	Deletions	Balance September 30, 2007
Capital assets not being depreciated:				
Land	\$ 246,719	\$ -	\$ -	\$ 246,719
Capital assets being depreciated:				
Bad Axe water tower	757,078	-	-	757,078
Bad Axe looping	743,927	-	-	743,927
Transmission main - separate	5,708,899	80,262	-	5,789,161
Booster stations	1,686,596	30,828	-	1,717,424
Water treatment plant	6,642,091	341,489	-	6,983,580
Water intake	951,387	-	-	951,387
Transmission main - shared	900,968	37,557	-	938,525
	<u>17,390,946</u>	<u>490,136</u>	<u>-</u>	<u>17,881,082</u>
Less accumulated depreciation:				
Bad Axe water tower	18,927	25,236	-	44,163
Bad Axe looping	13,948	18,598	-	32,546
Transmission main - separate	107,845	144,737	-	252,582
Booster stations	32,240	43,691	-	75,931
Water treatment plant	137,715	188,820	-	326,535
Water intake	23,785	31,713	-	55,498
Transmission main - shared	17,000	23,371	-	40,371
	<u>351,460</u>	<u>476,166</u>	<u>-</u>	<u>827,626</u>
Net capital assets being depreciated	<u>17,039,486</u>	<u>13,970</u>	<u>-</u>	<u>17,053,456</u>
Total capital assets - net	<u>\$ 17,286,205</u>	<u>\$ 13,970</u>	<u>\$ -</u>	<u>\$ 17,300,175</u>

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. The water system became operational on January 1, 2006 at which time depreciation began to be calculated. Interest during the construction phase of the capital assets amounted to \$447,574 and is included as part of the capitalized value of the assets constructed.

Depreciation of these assets is charged as an operating expense and is calculated on a straight-line basis over the estimated useful lives as follows:

<u>Asset Classification</u>	<u>Depreciable Life</u>
Bad Axe water tower	30
Bad Axe looping	40
Transmission main - separate	30-40
Booster stations	15-40
Water treatment plant	5-40
Water intake	30
Transmission main - shared	30-40

Depreciation expense was \$482,948 and \$476,166 for the years ended September 30, 2008 and 2007, respectively.

**HURON REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007
(CONTINUED)**

NOTE 4 – BONDS PAYABLE:

The Authority has been approved to issue bonds for the construction of capital facilities by U.S.D.A. Rural Development as follows:

	Shared Series 2004 A Water Supply System <u>Revenue Bonds</u>	Separate Series 2004 B Water Supply System <u>Revenue Bonds</u>	Separate Series 2004 C Water Supply System <u>Revenue Bonds</u>	<u>Total</u>
Bond proceeds approved as of:				
September 30, 2004	\$ 1,924,000	\$ 135,000	\$ 166,000	\$ 2,225,000
September 30, 2005	2,756,000	1,154,000	1,660,000	5,570,000
September 30, 2006	2,954,000	-	-	2,954,000
September 30, 2007	586,000	-	-	586,000
Total bond proceeds	<u>8,220,000</u>	<u>1,289,000</u>	<u>1,826,000</u>	<u>11,335,000</u>
Bond payments as of:				
September 30, 2008	(240,000)	(34,000)	(36,000)	(310,000)
Balance owing at September 30, 2008	<u>\$ 7,980,000</u>	<u>\$ 1,255,000</u>	<u>\$ 1,790,000</u>	<u>\$ 11,025,000</u>
Balance owing at October 1, 2006	\$ 7,559,000	\$ 1,280,000	\$ 1,816,000	\$ 10,654,000
Bond proceeds	586,000	-	-	586,000
Bond payments	(80,000)	(10,000)	(15,000)	(105,000)
Balance owing at September 30, 2007	<u>8,065,000</u>	<u>1,270,000</u>	<u>1,800,000</u>	<u>11,135,000</u>
Bond proceeds	-	-	-	-
Bond payments	(85,000)	(15,000)	(10,000)	(110,000)
Balance owing at September 30, 2008	<u>\$ 7,980,000</u>	<u>\$ 1,255,000</u>	<u>\$ 1,790,000</u>	<u>\$ 11,025,000</u>

(Continued)

**HURON REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007
(CONTINUED)**

NOTE 4 – BONDS PAYABLE: (Continued)

Interest accrues at the rate of 4.5% and is due October 1 and April 1 on the unpaid balance of the bonds. Principal is due annually on October 1 according to the following estimated schedule of debt service requirements to maturity, when the project is finalized:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 123,000	\$ 493,358	\$ 616,358
2010	133,000	487,597	620,597
2011	138,000	481,500	619,500
2012	148,000	475,065	623,065
2013	153,000	468,292	621,292
2014 - 2018	860,000	2,229,750	3,089,750
2019 - 2023	1,060,000	2,016,675	3,076,675
2024 - 2028	1,365,000	1,744,763	3,109,763
2029 - 2033	1,725,000	1,397,812	3,122,812
2034 - 2038	2,120,000	966,375	3,086,375
2039 - 2043	2,805,000	436,388	3,041,388
2044	595,000	13,387	608,387
	<u>\$ 11,025,000</u>	<u>\$ 11,210,962</u>	<u>\$ 22,235,962</u>

The Village of Port Austin and the City of Bad Axe have irrevocably pledged the net revenues of their respective water supply systems for their respective obligations for bond payments. In addition, they have agreed to make additional payments to the Authority for operation and maintenance expenses to support the Authority. The obligations of each local unit under the contract are not general obligations of each local unit, but are limited to the net revenues of each local unit's water supply system.

NOTE 5 – WATER SUPPLY MANAGEMENT CONTRACT:

The Authority operates under a contract whereby it owns, maintains and operates shared facilities. These shared facilities consist of a lake water intake, a treatment plant, a water pumping station and a transmission line from the treatment plant to the connection point. The Authority also owns separate facilities which are leased to the City of Bad Axe for \$1 per year for the term of the contract (40 years). The City of Bad Axe is solely responsible for the operation and maintenance of the separate facilities and has the exclusive right to determine which customer in its service area shall be connected to the separate facilities. The separate facilities consist of the water transmission line and pumping stations between the connection point and the City limits, the water tower located in Colfax Township and other looping improvements.

The shared facilities and separate facilities were financed by a combination of grants and bonds totaling approximately \$13,680,000 (\$10,317,000 shared facilities and \$3,363,000 separate facilities). In addition, the Village of Port Austin transferred its equity interest in land and the lake water intake to the Authority. The City of Bad Axe assigned capital assets totaling \$4,573,751 to the Authority as part of the separate facilities. The City paid for these assets with federal grant monies and has agreed to indemnify and hold the Authority harmless from any liabilities resulting from any subsequent audit of these grant proceeds.

NOTE 6 – RISK MANAGEMENT:

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, and natural disasters. The Authority participates in the Township Participating Plan through Michigan Community Underwriters for claims related to property loss, natural disasters, general liability, errors and omissions and auto liability.

**HURON REGIONAL WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007
(CONTINUED)**

NOTE 7 – OPERATIONAL SERVICE AGREEMENT:

On December 19, 2006 the Authority entered into an agreement with Wade Trim Operation Services, Inc. to provide operational services for the water facility. The term of the agreement is for five years beginning December 19, 2006 at an annual cost of \$208,800, including maintenance, chemical, and electric power allowances. Amounts in excess of the allowances are billed in addition. The agreement has renewal options for three additional years. Future adjustments to the contract can be negotiated if the Consumer Price Index exceeds 4% or if flow changes increase by more than 5%. Additionally, the Authority will pay for all capital expenditures and will maintain property insurance on the facilities. Major services provided by Wade Trim Operation Services, Inc. include:

- 1) Day to day operational costs of the water system, including labor costs and utility and chemical costs, within allowances, and accounting services.
- 2) Preventive and corrective maintenance and repairs up to \$7,000 per year.
- 3) Reading, billing and collection services.
- 4) Acting as the Authority's liaison with local, state and federal regulatory agencies.

For the years ended September 30, 2008 and 2007, Wade Trim Operation Services, Inc. provided these services on a contractual basis for \$232,956 and \$231,775, respectively.